EXPANDING OUR MARKETS

2003 ANNUAL REPORT

Drillers TECHNOLOGY CORP.

DRILLERS TECHNOLOGY CORP. IS AN INTERNATIONAL DRILLING CONTRACTOR THAT OPERATES FIVE RIGS IN CANADA, ONE IN ALASKA AND PARTICIPATES IN A JOINT VENTURE WHICH OPERATES EIGHT RIGS IN MEXICO. A FOUNDATION OF PROVEN INDUSTRY LEADERSHIP, EXPERTISE AND EXPERIENCE IS GENERATING RESULTS IN CANADA AND GROWTH INTERNATIONALLY.

DRILLERS TECHNOLOGY CORP. IS BASED IN CALGARY, ALBERTA AND IS LISTED ON THE TORONTO STOCK EXCHANGE (SYMBOL: DLR).

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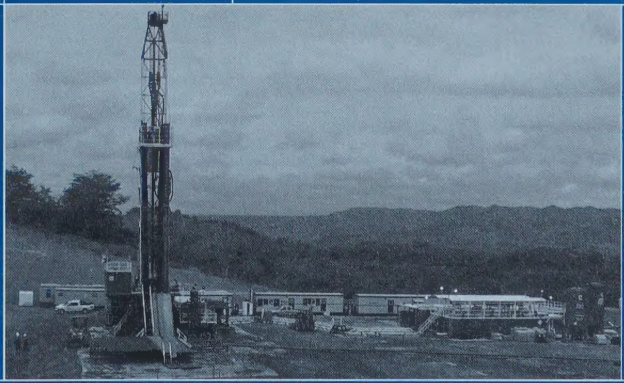
NOTICE OF ANNUAL GENERAL MEETING

The annual shareholder meeting will be held on Thursday, May 27, 2004 at The Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta, at 10:30 am, Calgary time.

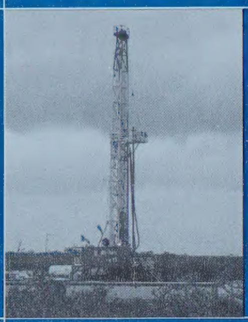
HIGHLIGHTS

(thousands of dollars except per share amounts)	2003	2002	% change
FINANCIAL			
Revenue	23,952	9,550	151
Cash flow from operations	2,013	1,243	62
Per dilutive share	0.07	0.05	40
Net earnings (loss)	(404)	(262)	(54)
Per dilutive share	(0.01)	(0.01)	–
Shareholders' equity	47,265	38,919	21
Net capital expenditures	4,990	9,893	(50)
Long-term debt	16,125	21	
Working capital	(4,530)	(4,642)	2
Weighted average number of shares – dilutive	27,561,823	24,152,520	14
OPERATIONAL			
Wholly owned			
Number of rigs	7	8	
Operating days	1,060	916	
Rig utilization rate (%)	50	32	
Canadian industry utilization rate (%)	58	39	
Mexico - Joint Venture			
Number of rigs	7	–	
Operating days	1,554	–	
Rig utilization rate (%)	90	–	
Drillers Technology share of JV			
Number of rigs	3.5	–	
Operating days	793	–	

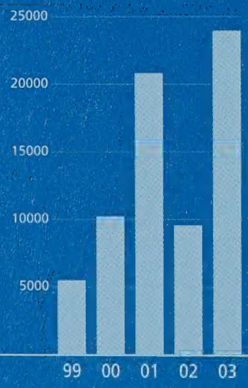
RIG 11 - MEXICO



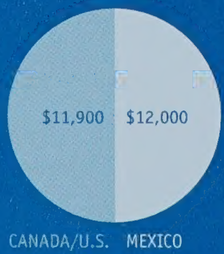
IN 2003, 50 PER CENT OF THE CORPORATION'S REVENUES WERE GENERATED FROM ITS INTERNATIONAL OPERATIONS. DRILLERS TECHNOLOGY WILL CONTINUE TO PURSUE ITS INTERNATIONAL STRATEGY ADDING RIGS AS FINANCIAL AND CONTRACTURAL CONDITIONS SUPPORT FUTURE INVESTMENTS.



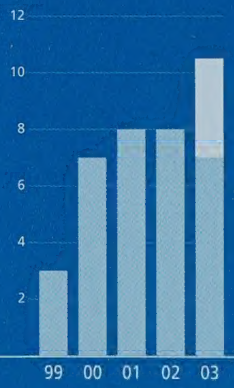
DRILLERS TECHNOLOGY HAS SUCCESSFULLY ESTABLISHED A PLATFORM FROM WHICH TO EXPAND ITS INTERNATIONAL OPERATIONS AND IS POSITIONED FOR THE FUTURE WITH QUALITY ASSETS, AN EFFECTIVE JOINT VENTURE RELATIONSHIP AND PROVEN CAPABILITY TO GENERATE SOLID PERFORMANCE FOR SHAREHOLDERS.



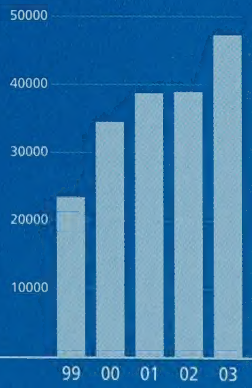
REVENUE
$ THOUSANDS



2003 REVENUE
$ THOUSANDS



NUMBER OF RIGS
JOINT VENTURE (51%)
WHOLLY OWNED



SHAREHOLDER'S EQUITY
$ THOUSANDS

RIG 5 – OFFSHORE ALASKA

RIG 5 WITH ITS UNIQUE RIG DESIGN AND SMALL FOOTPRINT IS ONE OF A FEW RIGS CAPABLE OF FITTING THE SMALL SURFACE ATOP THE PRODUCTION PLATFORM LOCATED IN THE COOK INLET OFF THE COAST OF ALASKA.

DRILLERS TECHNOLOGY CORP. SUCCESSFULLY ACHIEVED ITS OBJECTIVE TO CREATE AN INTERNATIONAL BASE FOR ITS DRILLING OPERATIONS. WE PROVIDE DRILLING SERVICES IN CANADA, ALASKA AND MEXICO. THIS INTERNATIONAL DIVERSIFICATION IS DESIGNED TO REDUCE THE SEASONALITY AND VOLATILITY OF CANADIAN OPERATIONS. WITH THE SUCCESSFUL ESTABLISHMENT OF OUR MEXICO JOINT VENTURE IN 2003, DRILLERS TECHNOLOGY IS NOW POSITIONED TO REALIZE REVENUE GROWTH AND AN IMPROVED PROFIT MARGIN IN 2004 AND BEYOND.

ESTABLISHING THE MEXICO JOINT VENTURE

In January 2003, Drillers Technology Corp. entered into an agreement with Dowell Schlumberger de Mexico S.A. de C.V. to create a corporate Joint Venture in Mexico. Mexico and Dowell Schlumberger created an excellent opportunity from which to pursue our international drilling initiatives. Mexico has an active drilling program with a stable government and a successful, long-established, government-owned oil company known as PEMEX. Dowell Schlumberger has been active in the country for over 50 years and has an excellent reputation and working relationship with PEMEX. The Corporation's relationship with Dowell Schlumberger significantly shortens the lead-time that would otherwise be required to build a presence in Mexico.

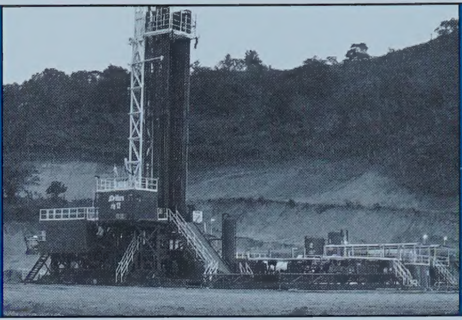
The prudence of our Joint Venture strategy is evident in the accomplishments of 2003. We entered the year as a Canadian drilling company without international operations. By year end, we had seven rigs in two regions in Mexico, drilling 111 wells, representing 18 per cent of all wells drilled in Mexico, and generating 1,554 operating days.

Drillers Technology holds a 51 per cent interest in the Joint Venture and Dowell Schlumberger holds the remaining 49 per cent. Dowell Schlumberger is the lead contractor to PEMEX and the Joint Venture provides the drilling portion of their turnkey project.

The Joint Venture operates four of the seven rigs in the Burgos field in northern Mexico under a contract to drill 230 wells by October 2004. The remaining three rigs operate in the Chicontepec basin, located 250 kilometers northeast of Mexico City. These rigs are contracted to drill 200 wells prior to December 31, 2006. Joint Venture rigs have averaged rig utilization of approximately 90 per cent throughout 2003 and are expected to do so throughout the life of the contracts.

The success of the Joint Venture's drilling operations is reflected in results from the field. The Joint Venture-operated rigs have established drilling records in the Chicontepec area by reducing drilling times from 19 days to routinely drilling wells in 10 days. Overall, the program is 14 months ahead of schedule. Our record shows that the Joint Venture provides a safe and efficient drilling operation, creating a strong competitor in the Mexican drilling environment.

RIG 12 - MEXICO



DRILLING PERFORMANCE IN MEXICO WAS EXCEPTIONAL, REDUCING AVERAGE DRILLING TIMES PER WELL IN THE CHICONTEPEC FIELD FROM 19 DAYS TO JUST 10. CONTRIBUTING TO THE EFFICIENCY ARE SKID-MOUNTED RIGS THAT ALLOW FOR FASTER MOVES FROM SITE TO SITE.

During the period January to August 2003, the Burgos rigs were contracted on a lump sum per well basis. Under these contract terms, operating risk was carried by the Joint Venture. In certain wells, operating days per well were greater than anticipated resulting in costs exceeding revenue. Effective September 2003, the drilling risk was transferred to Dowell Schlumberger as the contract was renegotiated to a per day rate. This contract change removed all downside operating risk while also removing the potential upside gains from operating efficiencies. This also puts the Burgos rigs on the same basis as the Chicontepec rigs, which have been under a per day rate contract from the outset. Protecting the downside risk with consistent revenues is a reasonable tradeoff at this stage of the Joint Venture's growth.

In January 2004, one additional rig was added to the Joint Venture fleet bringing its rig count to eight rigs.

JOINT VENTURE FINANCIAL PERFORMANCE

The Joint Venture operations generated 50 per cent of Drillers Technology's revenue for the year, even though five of the seven rigs commenced operations in June 2003. During 2003, the Joint Venture generated gross revenues of $23,500[1] of which the Corporation's 51 per cent share was $12,015.

Initiating the Joint Venture required a steep learning curve which included the complexities of constructing and mobilizing new rigs to Mexico, and the difficulties of establishing an organization from which to efficiently operate seven drilling rigs. Start-up costs and higher than anticipated operating costs contributed to the Joint Venure's net loss for the year.

The five drilling rigs constructed for the Joint Venture were completed at a cost of $21,367 net to Drillers Technology. The Corporation funded its investment in the Joint Venture rigs by drawing down $24,500 on new debt facilities of which $9,722 was used to repay existing debt. An additional $8,550 was generated from the issuance of 6,700,000 shares of the Corporation. The Corporation's debt is to be repaid from cash flow and the debt-to-equity ratio will be significantly reduced by December 31, 2004.

With the startup phase of the Joint Venture behind us, and contracts now providing consistent contract revenues, we are firmly focused on growing margins. Supply lines from Canada and within Mexico are now established greatly reducing order times and inventory quantities. We are now actively working to reduce operating costs at every stage in the process with the objective of maximizing the Joint Venture's profitability.

DRILLERS TECHNOLOGY'S WHOLLY OWNED RIGS IN HIGHLY COMPETITIVE ENVIRONMENT

Exploration for shallow gas continues to be a strong drilling activity driver in Canada. In 2003, producers explored for less risky natural gas reserves and as a consequence approximately 78 per cent of the wells drilled were to depths of less than 2,000 meters. Though the Canadian drilling industry drilled 21,720 wells in 2003, a record number, according to Canadian

[1] *Throughout this annual report, dollar figures are presented in Canadian currency with thousands omitted, unless otherwise stated.*

RIG 11 - MEXICO

MEXICO HAS AN ACTIVE OIL AND GAS EXPLORATION AND DEVELOPMENT INDUSTRY WITHOUT THE SEASONALITY THAT CHALLENGES THE INDUSTRY IN CANADA.

Association of Drilling Contractors (CAODC), there was also a record number of rigs, at 660, resulting in only 58 per cent rig utilization.

The Corporation's wholly owned rig fleet generated an average rig utilization rate of 50 per cent through 2003. Two of the Corporation's deeper rated rigs were unable to compete in the shallower gas market and thus experienced utilization rates lower than the industry average. Margins in the 2,000- to 3,000-meter depths were also weak as contractors reduced prices to gain limited available work. At December 31, 2003, the Corporation operated seven wholly owned rigs. One of the seven rigs was leased to Kuukpik Drilling of Alaska beginning in June 2003, another rig was contracted to Tesco for use in its casing drilling program, and the remaining five rigs were operated in western Canada. One of the five rigs was constructed early in 2003 to meet specific producer requirements and operated at high utilization rates since it was commissioned in June 2003.

From June to the end of December 2003, Kuukpik Drilling operated Rig 5 on a platform in the Cook Inlet, off the shore of Alaska. Rig 5 operated at 100 per cent capacity through that period and provided rates of return in excess of those normally earned in the Canadian drilling market. Rig 5 was moved from the platform and in February 2004 commenced a multi-well program in the Kenai Peninsula. Rig 5 is expected to be highly utilized throughout 2004 and beyond as Kuukpik Drilling has a significant marketing presence in the Alaska market.

In January 2004, the sale of one rig to the Joint Venture reduced the Corporation's wholly owned rig fleet to six rigs.

DRILLERS TECHNOLOGY'S UNIQUE ADVANTAGE OFFERING CASING DRILLING

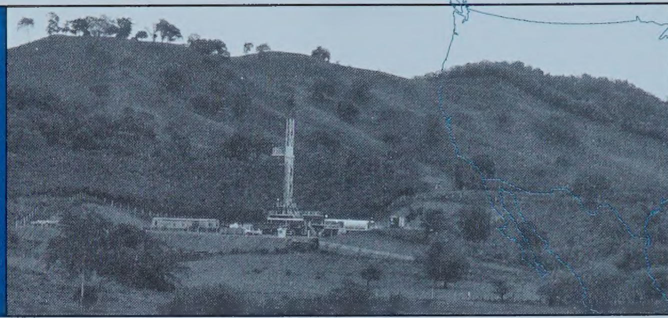
In Canada, during 2003 the Corporation employed Tesco Corporation's patented casing drilling process in 14 applications. The casing drilling process is successful in eliminating a number of downhole problems that could be encountered with traditional methods. One of the Corporation's wholly owned rigs was contracted to Tesco and used to drill three wells in the Chicontepec Basin of Mexico.

Tesco has granted Drillers Technology the exclusive right to provide its rigs with Tesco's casing drilling tools in Canada to the end of 2005.

AN OUTLOOK FOR IMPROVED RESULTS IN 2004

Management strongly believes its future lies with its international relationships. The Mexico Joint Venture, though still in its infancy, is already providing a solid platform from which to lever the Corporation's international expansion. Dowell Schlumberger, our Joint Venture partner, is a dominant participant in the expanding Mexican drilling environment. Through 2003, the Joint Venture operated at 90 percent utilization and that rate is anticipated to be matched through all of 2004.

RIG 10 - MEXICO



DRILLERS TECHNOLOGY HAS ESTABLISHED AN INTERNATIONAL PRESENCE WITH HIGH QUALITY RIGS AND EXPERTISE. WE ARE COMMITTED TO GROWING BOTH OPERATIONS AND FINANCIAL PERFORMANCE IN 2004 AND BEYOND.

In Mexico, PEMEX recently announced a 2004 capital expenditure budget of approximately $12 billion to drill in excess of 900 wells with approximately 400 to be drilled in the Burgos area where the Joint Venture operates four rigs. The Joint Venture is well positioned because of its ability to offer a modern fleet with high quality, efficient rigs and expertise. There is a barrier to enter this market as PEMEX, currently the sole producer in Mexico, tenders contracts as fully integrated projects, of which the sheer cost eliminates most competitors. This reality is reflected by the fact that the bids to PEMEX historically have included only three bidders, of which Dowell Schlumberger has been the most successful.

In Canada, with a rig fleet approaching 700 rigs and more slated for construction, we believe the drilling market is over-crowded. This over-crowded capacity is reflected in winter drilling rates that are less than historical averages and summer rates, when utilization drops below 40 per cent, are marginal. This scenario has the potential to decline further if commodity prices soften. The bright spot in Canada is the ongoing demand for natural gas which is supporting a consistent demand for drilling services throughout 2004. The CAODC is projecting average rig utilization for 2004 at 58 per cent, the same as achieved in 2003.

In 2004, the Corporation projects its wholly owned rig fleet will achieve an average annual rig utilization of 55 to 60 per cent, an increase of five to 10 per cent over 2003. In addition, Rig 5, sub-contracted in Alaska, is expected to be highly utilized in 2004.

In conclusion, the Corporation continues to pursue its international strategy, adding rigs only as long-term contracts are awarded and as financial conditions can support the investment. The Corporation is focused on debt repayments, increased revenues, cash flow and earnings. We anticipate ending 2004 in a stronger financial position and reflecting improved profit margins.

Implementation of the Corporation's strategy is truly a function of our employees' ability to execute the plan. We have a team that remains focused on achieving corporate goals and bring to life corporate successes. We have more to learn and are eager to accept the challenge. We are thankful to Dowell Schlumberger and Kuukpik Drilling for their contributions to our growth in the past year, and we express our appreciation to the Directors of Drillers Technology Corp. for their invaluable counsel and guidance provided willingly throughout the past year.

Sincerely,

Ronald Gnyra

RONALD GNYRA
President and Chief Executive Officer
March 30, 2004

The following discussion and analysis of the results of the operations and financial condition of Drillers Technology Corp., its subsidiaries and Joint Venture operation should be read in conjunction with the consolidated financial statements and accompanying notes contained in the 2003 annual report. The consolidated financial statements for the year ended December 31, 2003 were prepared in accordance with generally accepted accounting principles applied in Canada. This discussion of the financial and operating results is based on information available to March 30, 2004

The following discussion and analysis contains forward-looking statements based on current expectations that involve known and unknown risks and uncertainties that may cause results, performances or achievements of the Corporation to be materially different than results implied by such forward-looking statements. Such factors include fluctuations in oil and natural gas prices, weather conditions, and political and economic conditions in countries in which Drillers Technology Corp. does business.

The consolidated financial statements include the accounts of Drillers Technology Corp. and its wholly owned subsidiary. Commencing January 1, 2003, the Corporation entered into a Joint Venture arrangement with the purpose of providing contract drilling services in Mexico. The Corporation's 51 per cent interest in the Joint Venture is accounted for using the proportionate consolidation method, whereby the Corporation's proportionate share of revenues, expenses, assets and liabilities are included in the accounts.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(thousands of dollars except per share amounts)

Year Ended December 31	2003	2002	2001	2000	1999
FINANCIAL RESULTS					
Revenue	23,952	9550	20,814	10,228	5,473
Gross profit	5,510	3,070	9,757	4,311	1,910
% of revenue	23	32	47	42	35
Operating earnings (loss)	(439)	361	6,754	2,615	943
Financial items	(1,254)	(442)	(333)	137	95
Gain on sale of assets	1,039	–	–	–	–
Net earnings (loss)	(404)	(262)	6,421	1,639	543
Net earnings (loss) per diluted share	(0.01)	(0.01)	0.17	0.11	0.05
Cash flow from operations	2,013	1,243	8180	3,559	1,449
Cash flow per diluted share	0.07	0.05	0.34	0.24	0.14
FINANCIAL POSITION					
Working capital	(4,530)	(4,642)	3,732	354	2,035
Long-term debt	16,125	21	7,530	6,846	–
Shareholder's equity	47,265	38,919	38,696	34,474	23,423
OPERATING RESULTS					
Wholly owned					
Number of rigs	7	8	8	7	3
Operating days	1,060	916	1,475	732	395
Rig utilization rate (%)	50	32	57	42	44
Canadian industry utilization rate (%)	58	39	53	64	40
Mexico - Joint Venture					
Number of rigs	7	–	–	–	–
Operating days	1,554	–	–	–	–
Rig utilization rate (%)	90	–	–	–	–
Drillers Technology share of JV					
Share of rigs	3.5	–	–	–	–
Share of operating days	793	–	–	–	–

Gross profit is calculated as revenue minus operations expenses.

Operating earnings (loss) is calculated as gross profit minus general and administrative, and depreciation and amortization expenses.

Cash flow from operations is calculated as earnings (loss) plus or minus items not involving cash.

Cash flow from operations is not a recognized measure under Canadian generally accepted accounting principles (GAAP). Management believes that in addition to net income, cash flow from operations is a useful supplemental measure as it provides investors with an indication of earnings before depreciation, future taxes and other non-cash items. Investors should be cautioned that cash flow from operations should not be construed as an alternative to net income determined in accordance with GAAP.

QUARTERLY SUMMARY

Canadian drilling rig activity is influenced by seasonal weather patterns. Drilling is normally highest during the first and fourth quarters of each year as freeze-up during winter months allows access to oil and natural gas producing areas normally not accessible when the ground is soft. Drilling activity reaches its lowest level during the second quarter of each year when spring break-up causes the enforcement of road bans that curtail the mobilization of drilling rigs on secondary roads. As a result of the above seasonality, earnings may not be generated evenly from quarter to quarter.

(thousands of dollars except per share amounts)

Year ended December 31, 2003	Q1	Q2	Q3	Q4	Year
FINANCIAL RESULTS					
Revenue	$5,287	$2,732	$7,637	$8,296	$23,952
Gross profit	1,966	(791)	2,172	2,163	5,510
% of revenue	37	(29)	28	26	23
Operating earnings (loss)	1,216	(2,146)	177	314	(439)
Financial items	(93)	(202)	(359)	(600)	(1,254)
Gain (loss) on sale of assets	1,376	–	–	(337)	1,039
Net earnings (loss)	1,712	(1,728)	160	(548)	(404)
Net earnings (loss) per diluted share	0.07	(0.07)	0.01	(0.02)	(0.01)
Cash flow from operations	1,528	(1,601)	1,159	927	2,013
Cash flow per diluted share	0.06	(0.06)	0.04	0.03	0.07
FINANCIAL POSITION					
Working capital	(2,820)	(1,164)	(3,336)	(4,530)	(4,530)
Long-term debt	5,916	17,858	17,546	16,125	16,125
Shareholder's equity	40,631	47,595	47,711	47,265	47,265
OPERATING RESULTS					
Wholly owned					
Number of rigs	6	6	7	7	7
Operating days	248	160	379	273	1,060
Rig utilization rate (%)	62	35	59	43	50
Canadian industry utilization rate (%)	72	30	53	57	58
Mexico - Joint Venture					
Number of rigs	2	7	7	7	7
Operating days	93	347	565	549	1,554
Rig utilization rate (%)	71	98	90	85	90
Drillers Technology share of JV					
Share of rigs	1	3.5	3.5	3.5	3.5
Share of operating days	47	178	288	280	793

(thousands of dollars except per share amounts)

Year ended December 31, 2002	Q1	Q2	Q3	Q4	Year
FINANCIAL RESULTS					
Revenue	4,809	1,082	1,665	1,994	9,550
Gross profit	2,041	354	593	82	3,070
% of revenue	42	33	36	4	32
Operating earnings (loss)	1,271	(162)	47	(795)	361
Financial items	(111)	(111)	(101)	(119)	(442)
Gain on sale of assets	–	–	–	–	–
Net earnings (loss)	713	(335)	(62)	(578)	(262)
Net earnings (loss) per diluted share	0.03	(0.01)	–	(0.03)	(0.01)
Cash flow from operations	1,621	(183)	174	(369)	1,243
Cash flow per diluted share	0.07	(0.01)	0.01	(0.02)	0.05
FINANCIAL POSITION					
Working capital	5,155	3,586	862	(4,642)	(4,642)
Long-term debt	6,894	6,237	5,601	21	21
Shareholder's equity	39,869	39,559	39,497	38,919	38,919
OPERATING RESULTS					
Wholly owned					
Number of rigs	8	8	8	8	8
Operating days	373	161	210	172	916
Rig utilization rate (%)	52	22	29	29	32
Canadian industry utilization rate (%)	59	21	35	42	39

RESULTS OF OPERATIONS

OVERVIEW

As well as continuing to maintain active drilling operations in Canada, Drillers Technology expanded its drilling operations to Mexico and Alaska during 2003. At December 31, 2003, the Corporation operated seven wholly owned drilling rigs, (five in Western Canada, one in Alaska and one in Texas) and held a 51 per cent interest in seven drilling rigs in the Mexican Joint Venture.

MEXICO

In January 2003, the Corporation formed a Joint Venture with Dowell Schlumberger de Mexico to provide contract drilling services in Mexico. The Joint Venture, owned 51 per cent by Drillers Technology and 49 per cent by Dowell Schlumberger, operated seven drilling rigs at December 31, 2003, providing drilling services in the Burgos and Chicontepec areas of Mexico. All rigs are telescopic doubles rated to drill to depths ranging from 3,200 meters to 3,500 meters. All seven rigs are capable of providing casing drilling.

In January 2003, two of the seven rigs were purchased by the Joint Venture from Drillers Technology. Five additional rigs were constructed in 2003 by the Corporation and sold to the Joint Venture. In January 2004, one

additional telescopic drilling rig rated to 3,400 meters was purchased by the Joint Venture from the Corporation's wholly owned fleet, bringing the total Joint Venture fleet to eight rigs and reducing the Corporation's wholly owned fleet to six rigs. Additional rigs may be added to the Mexican fleet as long-term contracts are awarded.

The Joint Venture's eight rigs are contracted to Dowell Schlumberger to provide the drilling portion of Schlumberger's fully integrated contract with Petroleos Mexicanos ("PEMEX"). Four rigs have been contracted to drill approximately 200 wells over a four-year period in the Chicontepec basin. The Chicontepec basin, which is primarily oil bearing, is located approximately 250 kilometers northeast of Mexico City. The other four rigs are contracted to drill approximately 230 wells in the Burgos field prior to November. The Burgos field is located adjacent to the Texas border and is a natural gas bearing formation.

By the end of 2003, all Joint Venture rigs were under daywork contracts. During the period January 2003 to August 2003, the Burgos rigs were paid a lump sum per well drilled. However, during this period, the technical nature of some of the wells drilled exceeded the Joint Venture's risk profile. As a result, the Joint Venture renegotiated its lump sum per well contract to a daywork contract in September 2003. For the duration of this new contract, every contract day is paid at daywork, moving or standby rates.

The Joint Venture rigs are extremely competitive in the Mexican market. While the Mexican rig fleet is estimated to be approximately 80 rigs, most are older technology. During the year ended December 31, 2003, the seven Joint Venture rigs operated for 1,554 operating days at an average rig utilization rate of 90 per cent, drilling 111 wells or 18 per cent of the wells drilled in Mexico during that period.

PEMEX, the Mexican state owned oil company, is Mexico's sole producer. In 2003, PEMEX drilled 605 wells, a third more than the number of wells drilled in the year prior. Gas completions accounted for better than two-thirds of all wells drilled. In 2004, PEMEX expects to drill in excess of 900 wells, with approximately 400 wells being drilled in the Burgos field. PEMEX has stated its 2004 capital expenditure budget to be US $12.0 billion versus capital expenditures of $10.7 billion in 2003.

WHOLLY OWNED RIGS

Western Canada

At December 31, 2003, the Corporation's wholly owned rig fleet totaled seven rigs: five operated in Western Canada; one has been contracted to Kuukpik Drilling to provide drilling services in Alaska and one was stacked in Texas. Five of the seven rigs are telescopic double rigs rated to drill to 3,600 meters and two are range III singles capable of drilling to 2,000 meters. All seven rigs are designed to provide casing drilling.

At the end of 2002, the Corporation's rig fleet totaled eight rigs. In January 2003, two rigs were sold to the Mexican Joint Venture. Rig 9, the Corporation's newly constructed AC diesel electric rig was added in June 2003. Selling Rig 4 to the Joint Venture in January 2004 reduced the Corporation's wholly owned rig fleet to six.

During the 12 months ended December 31, 2003, the Corporation's seven wholly owned rigs operated for 1,060 operating days, drilling 85 wells and achieving an average rig utilization rate of approximately 50 per cent. Over a similar period in 2002, the Corporation operated eight rigs for 916 operating days for an average rig utilization rate of 32 per cent.

In the 12 month period ended December 31, 2003, the Canadian drilling industry drilled 21,720 wells compared to 14,560 wells drilled in 2002. During 2003, approximately 78 per cent of the wells drilled were drilled to depths less than 2,000 meters as producers preferred to explore in the less risky shallow gas plays. The market for rigs operating in the 2,000 to 3,500 meters depth range was extremely competitive. Although drilling activity reached record levels, so did the Canadian rig fleet count. At year-end, the Canadian rig fleet grew to 670 drilling rigs. Industry average rig utilization in 2003 was 58 per cent compared to 39 per cent in 2002.

The commodity price outlook remains bullish and producers are expected to maintain high spending levels in Canada during 2004. The Canadian Association of Oilwell Drilling Contractors is projecting approximately 18,000 wells will be drilled in 2004 – which would be the second best year on record. The continued demand for natural gas is expected to drive drilling rig activity. Discussions with the Corporation's customer base indicates a changing focus from shallow gas wells to deeper, higher production wells located in the foothills areas of Alberta and northeastern British Columbia, areas where the Corporation's fleet is most competitive. The Corporation's rig utilization rates during the first quarter of 2004 reached full capacity. Three of the Corporation's five drilling rigs operating in western Canada are contracted to return to work subsequent to spring breakup. Two rigs are competing in the spot market.

Alaska

In June 2003, the Corporation contracted one drilling rig to Kuukpik Drilling of Alaska on a non-operated basis whereby Kuukpik Drilling operates the rig, pays all operating costs and pays Drillers Technology a net daily contracted rate plus a percentage of pre-tax earnings. The rig has been 100 per cent utilized since commencing active operations in June 2003, drilling from a platform located in 220 feet of water in the Cook Inlet off the coast of Alaska. The rig was removed from the platform in late December 2003 and moved to the Kenai Peninsula, for a multi-well drilling program. Kuukpik Drilling maintains strong relationships with producers operating in Alaska, ensuring a strong marketing presence in a localized market.

Casing Drilling

All of the rigs operated within the Corporation's wholly owned and Mexican Joint Venture rig fleets are capable of providing drilling with casing. Casing drilling is a process patented by Tesco Corporation whereby drill pipe is replaced by casing as a means of drilling oil and natural gas wells. Tesco Corporation has granted Drillers Technology the exclusive right to provide rigs with Tesco's casing drilling tools in Canada. This contract expires December 2005.

During 2003, the Corporation's rigs drilled 14 casing drilling wells in Canada and three wells in Mexico. In Canada, one well was drilled using the complete bit retrieval process, five shallow wells were drilled where the bit was not retrieved and eight coring with casing wells were drilled.

In Mexico, Tesco contracted one of the Corporation's wholly owned rigs on a non-operated basis whereby Tesco paid a net amount per day for the use of the rig. The contract commenced in May 2003 and terminated in September 2003. During that time, Tesco drilled three casing drilling wells in the Chicontepec area of Mexico.

FINANCIAL RESULTS

The following information is presented in thousands of dollars, except where otherwise stated.

REVENUE

	2003			2002		
	Owned Rigs	Share of JV	Total	Owned Rigs	Share of JV	Total
Revenue	11,937	12,015	23.952	9,550	–	9,550
Revenue per operating day ($)	11,261	15,151	12,926	10,425		10,425
Number of rigs (JV net)	7	3.5	10.5	8	–	8

The Mexican Joint Venture commenced operations in January 2003. During the period January 2003 to the end of August 2003, four rigs operating in the Burgos area were contracted to Dowel Schlumberger on a lump sum per well contract. Initially, the Joint Venture was completing approximately two wells per month per rig. In the second quarter wells became more technical and problematic and as a result, the rate of completion declined to approximately one well per month, reducing revenues in that quarter. In September 2003, the Joint Venture renegotiated the Burgos drilling contracts to daywork. Since September 2003, each day of the contract is paid as daywork, mobilization, or standby, producing consistent revenue streams. The three Chicontepec rigs were contracted to daywork contracts from the onset. All contracts are denominated in US dollars and all rigs are expected to be fully utilized throughout 2004.

Strong demand for natural gas supplies was the driving force behind a record level of wells drilled in Canada in 2003. Of the 21,720 wells drilled in Canada, approximately 78 per cent were shallow gas wells. The Corporation's two range III single rigs were competitive at these depths. As two of the deeper rigs were unable to compete in the shallow gas market, utilization rates for these rigs were less than industry averages. In addition, contract rates for deeper rigs remained competitive as contractors bargained for the limited available projects. Rig 9, the Corporation's newly built 3,600 meter rig was constructed to meet a specific contract need and was contracted throughout the remainder of the year. The Corporation's six wholly owned rigs operating in Canada have been fully utilized throughout the first quarter of 2004.

The Corporation's one rig contracted to Kuukpik Drilling under a long-term non-operated contract achieved utilization rates of nearly 100 per cent. During June 2003 to December 2003, the rig was contracted to a multi-well drilling project situated on a platform located in the Cook Inlet, off the coast of Alaska. The rig is paid a daily contracted rate denominated in US dollars plus a percentage of the pre-tax earnings.

GROSS MARGIN

	2003 Owned Rigs	2003 Share of JV	2003 Total	2002 Owned Rigs	2002 Share of JV	2002 Total
Operating expenses	8,801	9,641	18,442	6,480	–	6,480
Expenses per day ($)	8,302	12,158	9,953	7,074	–	7,074
Gross margin (%)	26	20	23	32	–	32

At January 1, 2003 the Canadian dollar to US dollar exchange rate was 1.57. The Canadian dollar strengthened during the year and at December 31, 2003 the rate was 1.28 with the average rate for the year being 1.40. This change reduced gross margins in Mexico and Alaska compared to margins contemplated when the contracts were negotiated. While revenues are denominated in US dollars, approximately 70 per cent of the Joint Venture costs are denominated in US dollars and Mexican pesos which partially offset the effect of a stronger Canadian dollar.

During the first two quarters of 2003, four rigs operating in the Burgos area of Mexico were contracted to a lump sum per well contract. During that period, the time taken to drill certain wells was in excess of the projected well time. As a result, negative margins occurred on certain wells.

Expatriate labor costs and the cost of procuring operating supplies from Canada caused gross margins in Mexico to be lower than margins realized in Canada. In addition, $500 of start-up costs were incurred during the second quarter. The conversion to daywork contracts and a continued focus on reducing Mexican operating costs is having a positive effect on improving the Joint Venture operating margins.

Operating costs in Canada are generally variable in nature as field labor and fuel are incurred only when the rig is operating and are proportional to operating activity. Maintenance expenses are incurred as required and are generally expended during the idle time of spring breakup. During 2003, operating expenses per operating day increased approximately 17 per cent over daily operating expenses incurred in 2002. Labor rate increases averaging approximately five per cent were granted in the fall of 2003 and our spring maintenance expenditures included $500 of incremental expenditures.

OPERATING EARNINGS

Operating earnings (loss) is calculated as gross margin minus general and administrative, and depreciation and amortization expenses.

	2003 Owned Rigs	2003 Share of JV	2003 Total	2002 Owned Rigs	2002 Share of JV	2002 Total
General and administrative	1,352	794	2,146	1,175	–	1,175
Depreciation and amortization	1,552	2,251	3,803	1,534	–	1,534

GENERAL AND ADMINISTRATIVE EXPENSES

In general, the majority of the general and administrative expenditures are fixed costs and do not fluctuate with activity. The 2003 general and administrative expenses increased $959 compared to general and administrative expenses recorded in 2002. Approximately $300 was incurred in the start-up of the Joint Venture in Mexico. In 2003, the Canadian administrative employee count remained at six full-time employees. Management anticipates that two additional Canadian employees could be added in 2004. For the 12 months ended December 31, 2003, administrative salaries and burden, investor relations and insurance costs represent approximately 70 per cent of the Corporation's general and administrative expenses. Administrative expenditures include salaries of administrative staff, office rents in two locations and other advisory services essential to the provision of administrative support for the Mexican operation.

DEPRECIATION EXPENSE

Drilling rigs and drill pipe represent approximately 80 per cent of the depreciable assets. Drilling rigs are amortized on a usage basis over 3,650 operating days and therefore provisions for depreciation closely correlate with activity. In 2003, the Corporation operated seven rigs for 1,060 operating days compared to eight rigs for 916 operating days in 2002. In addition, ancillary equipment totaling approximately $3,800 is amortized using either the straight line or declining balance method.

FINANCIAL ITEMS

	2003			2002		
	Owned Rigs	Share of JV	Total	Owned Rigs	Share of JV	Total
Interest expense	1,195	30	1,225	442	–	442
Foreign exchange loss	94	–	94	–	–	–
Deferred finance charges	120	–	120	–	–	–
Other income	(185)	–	(185)	–	–	–
	1,224	30	1,254	442	–	442

In May 2003, the Corporation replaced its existing $8,900 bank term debt with an $18,000 reducing term facility. Also in May 2003, the Corporation drew on a subordinated debt facility in the amount of $4,000 and added $2,500 of subordinated debt in September 2003. Interest on the reducing term facility is calculated at 375 basis points above the one-month Banker's Acceptances rate in Canada. Interest on the subordinated debt is calculated at 12 per cent per annum. At December 31, 2003, the Corporation's total debt was $23,000.

Deferred financing charges include commitment fees and legal and accounting fees incurred in renegotiating the Corporation's new debt facilities. The deferred financing costs of $800 are amortized over 56 months, which is the term of the facilities.

GAIN (LOSS) ON SALE OF ASSETS

In January 2003, the Corporation sold two drilling rigs to the Joint Venture for cash proceeds of $9,723 and a 51 per cent interest in the Joint Venture. The sale of the rigs resulted in a pre-tax gain of approximately $1,367. In May 2003, the Joint Venture purchased a spudder rig to be used in drilling surface holes in the Chicontepec project. PEMEX changed the technical drilling requirements causing the spudder rig to become redundant. Accordingly, the spudder rig was sold and the Corporation's share of the loss was $328.

INCOME TAXES

The Corporation's provision for income taxes for 2003 is a $250 recovery versus $181 expense in 2002. The 2003 tax provision includes capital taxes in Canada and withholding taxes on operations in Alaska and Mexico.

ACCOUNTING POLICIES

The preparation and presentation of the Corporation's financial statements requires management to make estimates that significantly affect the results of operations and financial position reflected in the financial statements. In making these estimates, management applies accounting policies and principles that it considers to provide the most meaningful and reliable financial reporting. Management considers the most significant of these estimates to be the resulting period cost attributable to the amortization and depreciation of the Corporation's drilling rigs.

The Corporation recognizes depreciation expense on a systematic and rational basis over the estimated useful life of the assets. The amount recognized as depreciation over that lifetime is the original cost less the expected net salvage proceeds on disposal. The Corporation depreciates drilling rigs on a usage bases whereby the rig cost less an estimated salvage value are depreciated over 3,650 operating days. Assuming an average rig utilization of 50 per cent, the rigs would be amortized over 20 years. In Mexico, where the Joint Venture rigs are expected to operate consistently at 90 per cent utilization, the rigs should be amortized over 11 years. The useful life of a drilling rig, assuming regular maintenance, would be in excess of 20 years. The Canadian drilling industry generally assumes a useful life of 20 to 25 years.

CHANGES IN ACCOUNTING POLICY

In January 2003, the Corporation changed its method of accounting for stock-based compensation to a fair value method. The fair value method values options at the grant date and this amount is charged to earnings over the vesting period. The financial impact in converting to the fair value method was to increase the 2003 general and administrative expenses by $10.

LIQUIDITY AND CAPITAL RESOURCES

The capital requirements of the Corporation consist primarily of funds for field operations and rig construction. At December 31, 2003, the Corporation had a working capital deficiency of $4,530 compared to a working capital deficiency of $4,642 at December 31, 2002. At December 31, 2003, the Corporation had drawn $18,000 on its reducing term facility. A lump sum payment of $1,500 was paid on December 31, 2003 and an additional payment of $1,500 was made on January 15, 2004. The remaining $15,000 is repayable in 16 quarterly payments of $937 per quarter until December 31, 2007. At December 31, 2003, the Corporation had drawn $6,500 of its senior subordinated debt facility. The subordinated debt is repayable in 16 quarterly installments of $406 per quarter commencing in March 2004 and continuing to December 31, 2007. The loan payments of $1,343 per quarter or $5,372 per annum are expected to be paid from cash flows from operations.

The Corporation also has an operating line of $3,000 with a Canadian chartered bank of which none was drawn at December 31, 2003.

At December 31, 2003, the Corporation was not in compliance with the debt service covenant with its lenders. The Corporation has obtained a waiver from its lenders through to January 1, 2005. The Corporation expects to meet its future debt covenant requirements.

On June 11, 2003, the Corporation issued 6.7 million special warrants at a price of $1.35 each, generating net proceeds of $8,600. Each special warrant was exercised on June 30, 2003 at no additional cost to the holder for one common share and 1/2 common share purchase warrant. Each full share purchase warrant entitles the holder to acquire one common share at an exercise price of $1.45 until May 25, 2004. Additional proceeds to the Corporation, if all of the share purchase warrants are exercised, will be $4,857.

At December 31, 2003, the Corporation had 30,992,174 shares outstanding, 1,579,000 stock options, and 3,350,000 share purchase warrants outstanding. At March 25, 2004, there were 31,010,674 shares issued.

CAPITAL EXPENDITURES

During the 12 months ended December 31, 2003, the Corporation had capital expenditures in Canada of $4,990 compared to $9,893 in 2002. During 2003, the Corporation expended approximately $2,500 on the completion of Rig 9, $1,500 on upgrading two drilling rigs and approximately $1,000 on the purchase of drill pipe and ancillary equipment.

The Corporation's 51 per cent share of Joint Venture cash contributions for the purchase of drilling rigs and ancillary equipment located in the Mexican Joint Venture was $21,367, including $2,310 for rig mobilization.

The capital expenditures and Joint Venture investment were funded from proceeds of the new debt facilities, proceeds from the equity issue, proceeds from the sale of drilling assets and working capital.

CONTRACT OBLIGATIONS

Pursuant to the Joint Venture agreement with Dowell Schlumberger, beginning in April 2005, Dowell Schlumberger may elect to require the Corporation to purchase its 49 per cent interest in any "idled drilling rig" (as defined in the Joint Venture agreement) at a specified percentage of the depreciated value of the drilling rig. Dowell Schlumberger has committed to provide the Corporation with limited-term debt financing for a specified percentage of required acquisition amounts.

At December 31, 2003, the Corporation has contract obligations that included office rent, leased field vehicles and administrative assets. Contracted principle repayments are as follows: 2004 - $6,888; 2005 - $5,388; 2006 - $5,388; and 2007 - $5,349.

RELATED PARTY TRANSACTIONS

The Corporation has entered into a Joint Venture agreement with Dowell Schlumberger whereby the Corporation owns 51 per cent of the Joint Venture and Dowell Schlumberger owns 49 per cent. The participants share as to their proportionate interest in Joint Venture earnings, and contribute as to their share of capital expenditures. Dowell Schlumberger is the lead contractor to PEMEX and the Joint Venture is contracted to Dowell Schlumberger, to provide the drilling portion of the fully integrated contract.

A company controlled by a Director of the Corporation funded the Corporation's $6,500 subordinated debt and received a commitment fee of $350.

RISK FACTORS

The Corporation's operations are subject to the risks inherent to providing contract drilling services in Canada, Mexico and the United States. These risks include but are limited to:

OIL AND NATURAL GAS PRICES

The demand for contract drilling services is directly correlated to the financial strength of oil and natural gas producers. The strength and stability of oil and natural gas prices have direct impact on producer financial strengths and their need to employ contract drilling services. Factors that impact the price of crude oil and natural gas are beyond the control of the Corporation. Reduced commodity prices have historically reduced drilling activity and correspondingly, drilling margins. The impact of this risk is partially offset by the variable nature of its cost structure and the financial stability provided by the longer term drilling contracts in the Mexican Joint Venture.

WEATHER

Canadian drilling rig activity is influenced by seasonal weather patterns. Drilling activity is normally highest during the first and fourth quarters of each year as freeze-up during winter months allows access to oil and natural gas producing areas normally not accessible when the ground is soft. Drilling activity reaches it's lowest level during the second quarter of each year when spring breakup causes the enforcement of road bans curtailing the mobilization of drilling equipment on secondary roads. Historically, early onset of spring has shortened the winter drilling season, the year's highest margin period, to as little as sixty days. In addition, prolonged rains in the

summer can prevent equipment from getting to drilling sites as the secondary roads become impassable. The containerized design of certain of the Corporation's drilling rigs allows its rigs to be moved during road bans. Rigs are also strategically racked in active areas after the winter drilling season such that rig move costs will be competitive when bidding for work after breakup.

MEXICAN OPERATIONS

The Mexican Joint Venture operations are subjected to political, and administrative environments of which the management of the Corporation may not be familiar. Joint Venture drilling contracts may be terminated prematurely, nationalized or altered as a result of a regime change. To mitigate these risks the Joint Venture management has employed Mexican nationals who are familiar with the political culture and administrative system. In addition, Dowell Schlumberger has operated in Mexico for over 50 years and provides valuable assistance in managing these risks.

FOREIGN EXCHANGE RISK

The Corporation accounts for and reports its activities in Canadian dollars. The Joint Venture contracts and the Alaska contract are denominated in US dollars whose rates of exchange to Canadian dollars fluctuate. This foreign exchange risk may create gains and losses which could have an effect on the financial results of the Corporation.

OUTLOOK

Strong commodity prices continue to provide a bullish drilling environment in Canada. The Canadian drilling fleet has operated at near capacity throughout the 2004 winter drilling season, with projections indicating higher than seasonal average utilization rates subsequent to spring breakup. Most experts are predicting 2004 drilling activity to be marginally lower than 2003, but could be the second best year for drilling on record. Industry utilization rates are projected to be 58 per cent with the majority of the wells being drilled for natural gas. Producers are generally well funded at present and exploration is expected to return to drilling deeper natural gas plays, looking for better risk-reward paybacks. A strong winter drilling season and the prospect of a short breakup, has the Corporation projecting Canadian average rig utilization for 2004 to be 55 to 60 per cent.

In Mexico, the Joint Venture continues to operate at utilization rates of approximately 90 per cent. Now that all Joint Venture drilling contracts are day work, the revenue stream should remain consistent over the contract term. For 2004, the Corporation projects dramatically improved revenues. In Mexico the challenge ahead is the streamlining of the Joint Venture cost of operations. The Joint Venture management is focused on reducing operating costs. Rigs will be added only as longer term contracts are attained by our Joint Venture partner.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principals using appropriate accounting policies, methods and estimates as selected by management giving consideration to the Corporation's circumstances. Financial information elsewhere in the Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

Drillers Technology maintains internal accounting and administrative controls designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and, primarily through its Audit committee, ensures that management fulfills its responsibilities for financial reporting. The Audit Committee, comprised of three non-executive directors meets with management and the Corporation's auditors to review the consolidated financial statements and report on them to the Board of Directors.

KPMG LLP, the external auditors, have audited the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion. KPMG LLP has full and free access to the Audit Committee. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

RONALD GNYRA
President and Chief Executive Officer

DAVID SPIVAK
Vice President Finance and Chief Financial Officer

March 18, 2004

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Drillers Technology Corp. as at December 31, 2003 and 2002 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

CHARTERED ACCOUNTANTS
Calgary, Canada
March 18, 2004

December 31, 2003 and 2002 (thousands of dollars)	Notes	2003	2002
ASSETS			
Current assets			
Accounts receivable		$ 5,761	$ 3,686
VAT recoverable		658	–
Prepaid expenses		255	165
Assets held for sale	2	–	8,600
		6,674	12,451
Property and equipment	2	69,356	46,406
Deferred financing costs, net of accumulated amortization of $120		721	–
		$ 76,751	$ 58,857
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank indebtedness	3	$ –	$ 499
Accounts payable and accrued liabilities		2,723	6,880
Due to Joint Venture partner	7	1,593	–
Current portion of long-term debt	3	6,888	9,714
		11,204	17,093
Long-term debt	3	16,125	21
Future income taxes	4	2,157	2,824
Shareholders' equity			
Share capital	5	41,705	32,965
Contributed surplus	5	10	–
Retained earnings		5,550	5,954
		47,265	38,919
Commitments and contingencies	9		
Subsequent event	11		
		$ 76,751	$ 58,857

See accompanying notes to consolidated financial statements.

On behalf of the Board:

RONALD GNYRA
Director

MILTON ERICKSON
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years ended December 31 *(thousands of dollars, except per share amounts and number of shares)*	Notes	2003	2002
Revenue		$ 23,952	$ 9,550
Expenses			
Operations		18,442	6,480
General and administrative		2,146	1,175
Depreciation and amortization		3,803	1,534
Financial items	6	1,254	442
		25,645	9,631
Loss before the following		(1,693)	(81)
Gain on sale of rigs to Joint Venture	7	1,367	–
Loss on sale of equipment		(328)	–
Loss before income taxes		(654)	(81)
Income taxes (expense) recovery	4	250	(181)
Loss for the year		(404)	(262)
Retained earnings, beginning of year		5,954	6,216
Retained earnings, end of year		$ 5,550	$ 5,954
Loss per share:			
Basic		$ (0.01)	$ (0.01)
Diluted		$ (0.01)	$ (0.01)
Weighted average number of shares:			
Basic		27,529,708	24,066,147
Diluted		27,561,823	24,152,520

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 (thousands of dollars)	Notes	2003	2002
Cash provided by (used in):			
Operations			
Loss for the year		$ (404)	$ (262)
Items not involving cash:			
Depreciation and amortization		3,803	1,534
Amortization of deferred financing costs		120	–
Future income taxes (recovery)		(477)	(29)
Gain on sale of rigs to Joint Venture	7	(1,367)	–
Loss on sale of equipment		328	–
Stock based compensation		10	–
Cash flow from operations		2,013	1,243
Changes in non-cash working capital:			
Accounts receivable		(2,075)	1,698
VAT recoverable		(658)	–
Prepaid expenses		(90)	–
Accounts payable and accrued liabilities		1,291	(819)
Due to Joint Venture partner		1,593	–
		2,074	2,122
Investing			
Proceeds on sale of equipment		530	–
Proceeds on sale of rig to Joint Venture	7	9,723	–
Share of Joint Venture rigs and equipment		(21,367)	–
Joint Venture rig mobilization		(1,010)	(1,300)
Purchase of property and equipment		(4,990)	(9,893)
Change in non-cash working capital:			
Accounts payable and accrued liabilities		(5,448)	5,448
		(22,562)	(5,745)
Financing			
Decrease in bank operating loan		(499)	499
Proceeds on issue of shares, net of issue costs		8,550	485
Proceeds from long-term borrowings		24,500	2,202
Repayment of long-term borrowings		(11,222)	(2,584)
Debt financing costs		(841)	–
		20,488	602
Decrease in cash		–	(3,021)
Cash, beginning of year		–	3,021
Cash, end of year		$ –	$ –

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2003 and 2002 (thousands of dollars)

DRILLERS TECHNOLOGY CORP. (THE "CORPORATION") IS A DRILLING CONTRACTOR OPERATING DRILLING RIGS IN CANADA, MEXICO AND ALASKA. IN JANUARY 2003, THE CORPORATION ENTERED INTO AN AGREEMENT WITH DOWELL SCHLUMBERGER DE MEXICO S.A. de C.V. ("DOWELL SCHLUMBERGER") FORMING A CORPORATE JOINT VENTURE OPERATING DRILLING RIGS IN MEXICO (THE "JOINT VENTURE"). THE JOINT VENTURE, DRILLERS TECHNOLOGY DE MEXICO S.A. de C.V., IS OWNED 51% BY THE CORPORATION AND 49% BY DOWELL SCHLUMBERGER.

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

BASIS OF PREPARATION

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary. The investment in the Joint Venture is accounted for using the proportionate consolidation method, whereby the Corporation's proportionate share of revenues, expenses, assets, and liabilities are included in the accounts.

PROPERTY AND EQUIPMENT

The cost of new equipment and upgrades to existing equipment, resulting in improvements to the original features of the capital asset, are capitalized.

DEPRECIATION

Depreciation on drilling rigs is provided using an operating-days-method whereby the rigs are depreciated over 3,650 drilling days. The base for depreciation is cost less an estimated salvage value. Drill pipe and collars deployed to drilling rigs are depreciated over 1,100 drilling days and have no salvage value. Depreciation on well site units is provided on a straight-line basis over 5 years. Depreciation on ancillary equipment, furniture and fixtures and leasehold improvements is provided using a rate of 20% declining balance. Depreciation on buildings is provided on a straight-line basis over 20 years, commencing upon completion of construction.

Amortization of the Joint Venture rig mobilization costs is provided on a straight-line basis over 4 years.

FINANCING COSTS DURING CONSTRUCTION

Commitment fees and interest on debt to finance the construction of drilling rigs is added to the cost of the rigs. Capitalization of interest is discontinued when rig construction is completed.

REVENUE RECOGNITION

Revenue is recognized as services are provided based on agreed contracted rates.

Foreign currency translation

The foreign operations are considered to be fully integrated and all amounts in foreign currencies have been translated to Canadian dollars on the following basis:

- (i) Monetary assets and liabilities, at the exchange rate prevailing at year end;
- (ii) Non-monetary assets and liabilities at historic rates of exchange;
- (iii) Revenues and expenses (excluding depreciation and amortization which are translated at the same rate as the related assets), at the average rate of exchange for the period.

Gains or losses resulting from these translation adjustments are included in earnings.

PER SHARE AMOUNTS

Basic per share amounts are computed by dividing earnings by the weighted average number of common shares outstanding for the year. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

STOCK-BASED COMPENSATION PLANS

The Corporation has a stock-based compensation plan as described in note 5. Stock options granted after January 1, 2003 have been accounted for based on the fair value method. The fair value is measured at the grant date and charged to earnings over the vesting period with a corresponding increase in contributed surplus. For awards that vest on a graded basis, compensation cost is recognized on a pro-rata basis over the vesting period. Proceeds received on exercise of stock options are credited to share capital.

Prior to January 1, 2003 the Corporation used the settlement method of accounting for its stock-based compensation plan. The Corporation did not recognize a compensation cost on the issuance of stock options to employees and directors as the exercise price was the same as the market price on the day of the grant. Proceeds received on the exercise of stock options were credited to share capital. The Corporation did apply a fair value method to stock options granted to non-employees resulting in recognition of an expense with a corresponding amount to contributed surplus.

INCOME TAXES

The Corporation follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted income tax rates. The effect of a change in tax rates on future income tax liabilities and assets is recognized in earnings in the period that the change occurs.

CASH POSITION

Cash and cash equivalents are represented by actual cash balances and balances of highly liquid investments with original maturities of three months or less.

DEFERRED FINANCING COSTS

Costs related to the issuance of long-term debt are deferred and amortized by the straight-line method over the term of the debt.

2. PROPERTY AND EQUIPMENT

2003	Cost	Accumulated Depreciation	Net Book Value
Drilling rigs	$ 63,180	$ 4,586	$ 58,594
Drill rigs – drill pipe	5,949	1,863	4,086
Well site units	1,474	516	958
Ancillary equipment	2,135	246	1,889
Vehicles	332	81	251
Land and buildings	1,632	145	1,487
Furniture and fixtures	166	103	63
Joint Venture rig mobilization	2,310	282	2,028
	$ 77,178	$ 7,822	$ 69,356

2002	Cost	Accumulated Depreciation	Net Book Value
Drilling rigs	$ 44,536	$ 2,733	$ 41,803
Drill rigs – drill pipe	3,786	1,332	2,454
Drilling rig under construction	5,074	–	5,074
Well site units	689	366	323
Ancillary equipment	2,768	280	2,488
Land and buildings	1,579	93	1,486
Furniture and fixtures	165	87	78
Joint Venture rig mobilization (note 7)	1,300	–	1,300
Less: Assets held for sale	(9,030)	(430)	(8,600)
	$ 50,867	$ 4,461	$ 46,406

During the year ended December 31, 2003 the Corporation capitalized $148 of interest on borrowings to finance the construction of drilling rigs. No interest was capitalized in 2002.

3. BANK INDEBTEDNESS AND LONG TERM DEBT

BANK INDEBTEDNESS

The Corporation has a $3,000 operating line credit facility with a Canadian chartered bank. There were no funds drawn on the facility at December 31, 2003 (2002 - $499). This secured facility bears interest at the bank's prime rate plus 0.75%.

LONG-TERM DEBT

	2003	2002
Reducing term facility	$ 16,500	$ –
Bank term facility	–	9,286
Senior subordinated debt	6,500	–
Mortgage on building	–	395
Other	13	54
	23,013	9,735
Less classified as current	(6,888)	(9,714)
	$ 16,125	$ 21

In May 2003 the Corporation refinanced the bank term facility. The Corporation drew down $18,000 on a new reducing term facility. Interest is payable at 375 basis points above the one-month banker's acceptance rate. The facility is secured by a general security agreement covering all assets and undertakings of the Corporation. At December 31, 2003, a payment of $3,000 was due on the facility. The Corporation paid $1,500 on December 31, 2003 and $1,500 on January 15, 2004. The $15,000 balance is repayable in 16 quarterly payments of $937 per quarter to December 2007.

The Corporation has drawn $6,500 on a senior subordinated debenture. The debt bears interest at 12% per annum. The subordinated debt is repayable in 16 quarterly installments of $406 per quarter, commencing in March 2004 through December 2007.

The credit agreements require the Corporation to meet specified debt to cash flow and debt service ratios and maintain a minimum tangible net worth. At December 31, 2003 the Corporation was not in compliance with the cash flow and debt service ratios. The covenants are determined quarterly. The Corporation has obtained a waiver from the lenders through January 1, 2005 and therefore, has classified the facilities as a long-term obligation.

The bank term facility required the Corporation to maintain minimum working capital requirement and meet specified debt to cash flow and debt service ratios. The Corporation was not in compliance with the covenants at December 31, 2002. As the bank had not waived its right to demand repayment, the entire amount of borrowings under the facility was classified as a current liability at December 31, 2002.

Principal repayments are estimated to be as follows:

2004	$	6,888
2005		5,388
2006		5,388
2007		5,349
	$	23,013

The Corporation paid interest of $1,195 during the year ended December 31, 2003 (2002 - $442).

4. INCOME TAXES

The provision for income taxes differs from that which would be expected by applying the expected Canadian federal and provincial rates. The differences are summarized as follows:

		2003		2002
Loss before income taxes	$	(654)	$	(81)
Expected tax rates		35%		36%
Expected tax provision		(229)		(29)
Capital taxes		80		80
Withholding taxes		147		130
Effect of provincial rate reduction		(73)		–
Non-taxable portion of gain on sale of rigs to Joint Venture		(210)		–
Non-deductible expenses		35		–
Actual tax provision (recovery)	$	(250)	$	181

The provision for income taxes is comprised of:

		2003		2002
Current taxes				
Canada – Capital taxes	$	80	$	80
United States – Withholding taxes		105		130
Mexico – Withholding taxes		42		–
		227		210
Future taxes				
Canada (recovery)		(300)		(29)
Mexico (recovery)		(177)		–
		(477)		(29)
Income taxes (recovery) expense	$	(250)	$	181

The components of the future income tax liability are as follows:

	2003	2002
Tax assets:		
Non-capital loss carry forwards		
Canada	$ 6,300	$ 4,760
Mexico	600	–
Share and debt issue costs	230	195
Undepreciated capital costs	14,988	11,287
	22,118	16,242
Less net book value of property and equipment	(24,275)	(19,066)
Future income tax liability	$ (2,157)	$ (2,824)

At December 31, 2003 the Corporation has non-capital losses available for income tax purposes in Canada and Mexico of $18,000 and $1,700, respectively. These losses expire from time to time between 2009 and 2010.

5. SHARE CAPITAL

AUTHORIZED

Unlimited number of common shares without nominal or par value
Unlimited number of first preferred shares issuable in series
Unlimited number of second preferred shares issuable in series

ISSUED

	Number of Shares	Amount
Common shares		
Balance, December 31, 2001	23,667	$ 32,480
Exercise of stock options	485	485
Balance, December 31, 2002	24,152	32,965
Issued for cash, net of after-tax issue costs of $446	6,700	8,600
Exercise of stock options	140	140
Balance, December 31, 2003	30,992	$ 41,705

STOCK OPTIONS

The Corporation has a stock option plan under which it has granted options to acquire common shares to certain officers, directors and employees. Under the terms of the plan, an amount equivalent to ten percent of the common shares outstanding from time to time can be reserved for issuance, with no one person being entitled to more than five percent of the options granted. The following table summarizes the change in the outstanding options:

	2003		2002	
	Number of Shares	Weighted average exercise price	Number of Shares	Weighted average exercise price
Outstanding, beginning of year	1,354	$ 1.43	1,597	$ 1.30
Granted	365	1.16	287	1.37
Exercised	(140)	1.00	(485)	1.00
Cancelled	–	–	(45)	1.68
Outstanding, end of year	1,579	$ 1.40	1,354	$ 1.41
Exercisable at year end	790	$ 1.51	659	$ 1.43

The options may be exercised over three years in equal amounts from the date of grant and expire from time to time to December 28, 2008. The weighted average remaining contractual life of the options is 3.08 years (2002 – 3.04 years).

STOCK BASED COMPENSATION

In the fourth quarter of 2003, the Corporation adopted a new accounting policy for stock-based compensation related to common share options. Effective January 1, 2003, the Corporation records a compensation cost for all common share options granted to employees and directors after January 1, 2003. Share options granted to employees and directors prior to January 1, 2003, did not result in a compensation cost. The Corporation continues to disclose the pro forma earnings impact for these options.

Had compensation cost for stock options granted to employees and directors been determined based on a fair value method, the loss and loss per share would approximate the following pro forma amounts.

	2003	2002
Fair value of options granted in 2002		$ 300
Loss		
As reported	$ (404)	$ (262)
Pro forma	$ (530)	$ (282)
Loss per share		
Basic		
As reported	$ (0.02)	$ (0.01)
Pro forma	$ (0.02)	$ (0.01)
Diluted		
As reported	$ (0.02)	$ (0.01)
Pro forma	$ (0.02)	$ (0.01)

The fair value of each option granted was estimated on the date of grant using the Black Scholes option-pricing model with the following weighted average assumptions:

	2003	2002
Dividend yield	nil	nil
Volatility	50%	100%
Risk-free rate of interest	3%	3%
Expected life	5 years	5 years

SHAREHOLDER RIGHTS PLAN

In 2001 the shareholders adopted a shareholder rights plan. If a bid to acquire control of the Corporation is made, the plan is designed to give the board of directors time to consider alternatives to allow shareholders to receive full and fair value for their shares. In the event that a bid, other than a permitted bid, is made, shareholders become entitled to exercise rights to acquire common shares of the Corporation at 50% of market value.

6. FINANCIAL ITEMS

The financial items are comprised of:

	2003	2002
Interest on long-term debt	$ 1,195	$ 442
Other interest	30	–
Amortization of deferred financing costs	120	–
Foreign exchange loss	94	–
Other income	(185)	–
	$ 1,254	$ 442

7. JOINT VENTURE AND GEOGRAPHIC SEGMENT INFORMATION

FORMATION OF AND SALE OF RIGS TO JOINT VENTURE

In November 2002 the board of directors approved the formation of a Joint Venture with Dowell Schlumberger. In January 2003 the Corporation agreed to a Joint Venture arrangement. The Corporation owns 51% of the Joint Venture and Dowell Schlumberger owns 49%. The venturers share proportionately in the Joint Venture earnings and must contribute as to their share of capital expenditures.

In preparation for the Joint Venture, in 2002 the Corporation incurred $3,500 for upgrades on two existing drilling rigs subsequently sold to the Joint Venture and $1,300 for rig mobilization. Accordingly, 49% of the book value of the two drilling rigs and the rig mobilization costs were classified as a current asset at December 31, 2002.

The sale of the two rigs to the Joint Venture for proceeds of $9,723 and a 51% interest in the Joint Venture resulted in a pre-tax gain of $1,367.

DUE TO JOINT VENTURE PARTNER

Dowell Schlumberger advanced the Joint Venture funds to pay VAT paid on the importation of drilling rigs into Mexico. The advances are secured by an assignment of VAT recoverable. At December 31, 2003 the Corporation's proportionate share of the debt was $1,593 (US $2,075). Interest is payable at 200 basis points above the one-month LIBOR rate.

JOINT VENTURE RESULTS OF OPERATIONS AND FINAL POSITION

The Corporation has included the following Joint Venture results of operations in its 2003 consolidated statement of operations:

Revenue	$ 12,015
Expenses:	
Operations	9,641
General and administrative	794
Financial items	30
	10,465
Cash flow from operations	1,550
Depreciation and amortization	(2,251)
Loss on sale of equipment	(328)
Loss before income taxes	(1,029)
Future income taxes recovery	177
Loss for the year	$ (852)

Drilling contracts with Dowell Schlumberger provided 100% of the revenue of the Joint Venture.

The Corporation has included the following assets and liabilities of the Joint Venture in its consolidated balance sheet as at December 31, 2003:

Current assets	$ 2,768
Drilling rigs and related equipment	28,611
Current liabilities	2,476
Future income taxes liability (asset)	(177)

Current assets include $1,800 due from Dowell Schlumberger.

8. FINANCIAL INSTRUMENTS

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar, the US dollar and the Mexican peso will affect the operating results. The Joint Venture operations are subject to this risk.

INTEREST RATE RISK

The Corporation has interest rate exposure on its debt instrument. At December 31, 2003 the Corporation had $18,093 of debt instruments that were subject to floating interest rate charges.

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying values of the financial asset and liabilities approximate the fair values at December 31, 2003 and 2002.

CREDIT RISK

Accounts receivable include balances from a limited number of customers. The Corporation assesses the credit worthiness of customers before extending credit and routinely monitors their credit performance. Accordingly, the Corporation views the credit risk on these amounts as normal for the industry. At December 31, 2003 and 2002, the Corporation did not have an allowance for doubtful accounts.

9. COMMITMENTS AND CONTINGENCIES

Future minimum lease payments under operating leases related primarily to office space and equipment are as follows:

2004	$ 121
2005	60
2006	15

Pursuant to the Joint Venture agreement, beginning in April 2005, Dowell Schlumberger may elect to require the Corporation to purchase their 49% interest in any "idled drilling rig" (as defined in the Joint Venture agreement) at a specified percentage of the book value of the drilling rig. Further, Dowell Schlumberger is committed to provide the Corporation with limited-term debt financing for a specified percentage of required acquisition amounts.

10. RELATED PARTY TRANSACTIONS

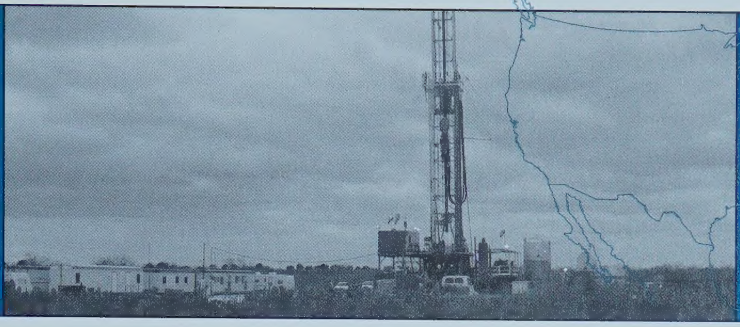
A company controlled by a director funded the Corporation's $6,500 senior subordinated debt. The Corporation paid a commitment fee of $350 and interest on the debt of $345 to the company controlled by the director in 2003.

11. SUBSEQUENT EVENT

In January 2004 the Corporation sold one drilling rig to the Joint Venture for proceeds of $5,900. The Corporation received cash proceeds of $2,891 and a 51% interest in the rig in the Joint Venture. The sale of the rig resulted in a pre-tax gain of approximately $800. Following the sale, the Corporation owns and operates 6 drilling rigs and has a 51% interest in the Joint Venture operating 8 drilling rigs.

CORPORATE INFORMATION

RIG 572 - MEXICO



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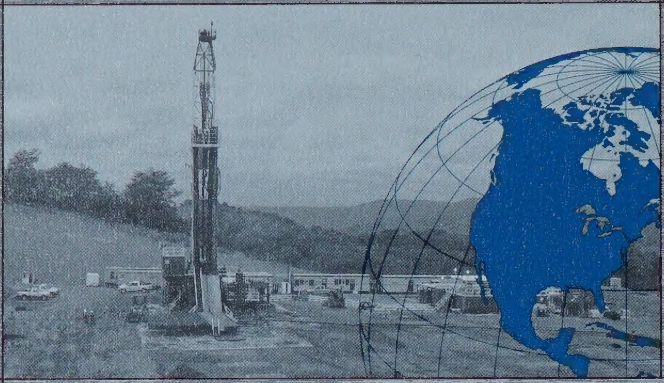
STOCK EXCHANGE LISTING

The Toronto Stock Exchange: DLR

Design and production: Melnyk Cary & Associated Ltd. Printed in Canada: Emerson Clarke Printing Corporation



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